

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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Assistant Auditor/Controller-Recorder  
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**March 30, 2009**

**Mike N Williams, Director**

Department of Airports  
825 East Third Street, Room 203  
San Bernardino, CA 92415-0831

**Subject: MANAGEMENT LETTER – COUNTY SERVICE AREA NO. 60 – APPLE  
VALLEY AIRPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

We have completed an audit of the County Service Area No. 60 – Apple Valley Airport (District) Enterprise Fund, for the fiscal year ended June 30, 2008 and have issued our report thereon dated March 30, 2009. In planning and performing our audit of the financial statements of the District Enterprise Fund as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be significant deficiency and two deficiencies that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We believe that the following deficiency constitutes a significant deficiency:

**Significant Deficiency # 1 – Same person signs as preparer and approver on transfer documents.**

Good accounting practice requires someone other than the person preparing a document to review and approve. The District's Staff Analyst II, who supervises the fiscal section of the Department of Airports, prepares and approves transfer documentation. The Staff Analyst II is authorized by the Director of Airports to approve all transfer documentation and there is no policy in place that prohibits the person preparing the transfer documents from approving them. By not having a different person than the one who prepared the document approve it, intentional and unintentional errors could occur and may not be discovered, potentially resulting in materially misstated financial information.

**Recommendation:**

Establish a policy that prohibits the person preparing a document from reviewing and approving the same document.

**Management's Response:**

*We concur with audit findings and will resolve the deficiency as follows:*

*The Department of Airports is currently developing written procedures for the lines of business activities for which it conducts and is responsible to complete. Administrative and fiscal authorities, duties and responsibilities will be clearly defined. The department of Airports anticipates that this document will be completed by July 1, 2010.*

*In the interim, the Department Staff Analyst II has been notified that all transfer documentation requires approval by the Director of Airports.*

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies are material weaknesses:

**Material Weakness # 1 – Unique department code not utilized for all District's funds.**

The District is a legally separate entity from the County of San Bernardino, even though it is governed by the Board of Supervisors and is administered by the Department of Airports. Good accounting practice requires the District's funds to be accounted for separately in order to provide reliable financial data for the annual financial audit, as required by Government Code Section 26909. To keep the District's funds separate in the County's Financial Accounting System (FAS) requires a unique department code to represent all financial data of the District. During our audit, it was noted that there are

two department codes associated with the District's funds. Department code 400 represents the District, while department code APT represents the County's Department of Airports. Since the District is a legally separate entity, all funds should be under department code 400. However, it was noted at the beginning of our audit that only one fund was coded to department code 400. The other twelve active funds were coded to department code APT. By not having a clear separation between the Department of Airports funds and the District's funds, there may be additional funds not included in the financial statements, potentially resulting in materially misstated financial information.

**Recommendation:**

We recommend that the District change the department code associated with all of the District's funds to 400 to properly distinguish all Districts' financial information separate from the County Department of Airports. Contact the County Administrative Office (CAO) to assist you with correcting encumbered contracts and budgets to properly reflect the District's department code.

**Management's Response:**

*We concur with audit findings and will resolve the deficiency as follows:*

*The Department will be coordinating with the Auditor/Controller-Recorder and/or the County Administrative Office to implement these changes.*

**Material Weakness # 2 – Necessary year-end accruals are not being processed accurately.**

The accrual basis of accounting should be used by this District, in accordance with Generally Accepted Accounting Principles. Under this basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Therefore, preparing year-end accruals provides more accurate and reliable financial information that is useful in the decision making process over the District's operations. Further, Governmental Accounting Standards Board (GASB) Statement No. 33 requires a receivable and revenue be recognized once all applicable eligibility requirements for a grant have been met. For a 'reimbursement-type' grant, eligibility requirements are met once allowable costs are incurred.

During the audit, it was discovered that property taxes and a cash receipt for Redevelopment Area pass-through revenue were not accrued as taxes receivables at year-end, resulting in an audit adjustment of \$577,951. There was also one invoice for a construction project which was not accrued for as accounts payable, resulting in an audit adjustment of \$185,258. In addition, retentions payable are not being accrued for at year-end for construction projects that are withholding retentions, resulting in an audit adjustment of \$186,686. Also, due to the District not being aware of the GASB 33 revenue recognition requirements, a receivable of \$72,697 was not accrued at year-end and an audit adjustment was necessary. This amount represents expenditures incurred by the District as of June 30, 2008 and eligible for reimbursement from their Federal

Aviation Administration (FAA) grant. Not properly accounting for necessary year-end accruals can potentially have a material effect on the financial statements.

**Recommendation:**

We recommend that the District become more familiar with the year-end closing manual provided by the General Accounting Section of the Auditor/Controller-Recorder to ensure all appropriate year-end accruals are being made and included in the District's year-end accrual package. Follow the instructions in the manual and ask for guidance from General Accounting if needed. If invoices are not available from a vendor by the accrual package deadline, obtaining estimates from the vendor for services provided through June 30<sup>th</sup> is acceptable. Additionally, in the event that material items are found after the deadline for the accrual package, the District should notify the Auditor of the possible need for an audit adjustment. Further, we recommend that the District become familiar with GASB 33 revenue recognition requirements and ensure any outstanding grant reimbursements and expenditures incurred but not submitted for reimbursement are accrued as a receivable at year-end.

**Management's Response:**

*We concur with audit findings.*

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By:

Howard M. Ochi  
Chief Deputy Auditor

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LDW:HMO:RRB:LLR:mah